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CITY COUNCIL MEETING  
FEBRUARY 21, 1990

RECEIPT OF AUDITED  
FINANCIAL STATEMENTS

CC-21(a)

The City Council, on motion of Council Member Reid, Pinkerton second, accepted for filing the following documents connected with the audit of the City of Lodi as of and for the year ended June 30, 1989:

1. Single Audit Suggestions (Management Letter)
2. Finance Director's Comments--Single Audit Suggestions
3. Report on Compliance with the City's Investment Policy
4. Single Audit Report
5. General Purpose Financial Statements

Further, the City Council determined that this matter should be placed on a future Shirtsleeve Session Agenda.



Peat Marwick

Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

October 26, 1989

The Honorable Members City Council  
City of Lodi, California:

We have audited the general purpose financial statements of The City of Lodi for the year ended June 30, 1989, and have issued our report thereon dated October 26, 1989. In planning and performing our audit of the general purpose financial statements of the City of Lodi, California we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized as follows:

### SINGLE AUDIT SUGGESTIONS

#### **Monitoring of Single Audit Grants**

The City is a recipient of federal and state monies for several grant programs. Currently, different departments are involved with the request for and subsequent monitoring of the various program activities. An individual in the police department had been assigned responsibility for monitoring the state programs; however, this employee no longer is employed by the City. The responsibility of monitoring compliance has not been reassigned to another employee.

The administration of grant programs should be reevaluated, specific responsibilities assigned, and authority delegated to ensure that one individual is aware of all monies received by City departments under Federal grants, and state and county pass-through programs, and is responsible for monitoring departmental efforts to comply with all general and specific administrative requirements of the grant programs. Assigning responsibility will reduce the risk of loss of future program awards due to inadvertent noncompliance with regulations and requirements of each grant program. Additionally, the City may discover it is eligible for funds under other grant programs previously overlooked due to lack of familiarity with available grant programs.

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## **FIXED ASSETS**

### **Establish Fixed Assets Records and Controls**

Sound financial administration in safeguarding the City's investment in **fixed** assets is of utmost importance in the exercise of stewardship responsibilities. These responsibilities can be effectively discharged only through adequate **fixed assets** accounting.

By **maintaining fixed assets records**, the City will **realize** several **benefits**:

- Fixed assets **can be** inventories **periodically** to ensure that they **are** properly controlled.
- Responsibility for custody and effective **use** of **fixed assets** can be clearly established.
- Information regarding **sources** of supply, prices, **and useful** lives will be readily available. If information regarding maintenance costs is **also** included in the subsidiary ledgers, **ratios** of cumulative maintenance **costs** to **original** costs can be developed.
- Records will be readily available to substantiate the amount of grants used to finance expenditures for fixed assets. Furthermore, the determination of costs for building or equipment use is facilitated. The latter is important to obtain reimbursement for the use of buildings and equipment in federal and state aid **programs**.
- Information is readily available **both** to determine insurance needs and to substantiate losses recoverable from insurance.

Establishing fixed assets record when none existed before can be a difficult and time-consuming task. One approach is to:

1. Define clearly what constitutes the fixed assets categories (e.g., land, buildings, improvements other **than** buildings, equipment); a **fixed** asset (i.e., minimum dollar value and useful life); and the location "control" **mas**
2. Plan and perform a complete inventory of all fixed assets. In creating the inventory records, obtain **as** much of the information to be included in the individual assets records as is possible, e.g., asset description, location, vendor or manufacturer, acquisition date. Fixed assets identification tags should be affixed at the time the physical inventory is taken.

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3. **Assign** values to each asset according to generally accepted principles. **Fixed assets** should ~~be~~ recorded at historical cost, or estimated historical cost, if the original cost is not available, ~~or, in the case of gifts or contributions,~~ at the **fair** market value at the **time** received.

Several procedures can be used ~~to determine~~ the valuation.

- Reference to the historical records, such as vendors' invoices, contracts, purchase ~~orders~~, capital expenditure authorizations, cancelled checks, gift acknowledgements, or other documents on hand.
- Correspondence with vendors, donors, etc.
- ~~Use~~ of an asset valuation reasonable reflective of historical value, **provided** it is reliable, if historical or fair market value is **not** available.
- Historical cost as reasonably estimated by employees for small items of relatively low value, e.g., tools, office furniture, and equipment.
- Reliance on independent outside appraisals for assets which cannot be valued by **one** of the above methods or **some** other reasonable method. It is important to emphasize, however, that the appraisal should be based upon estimated historical cost, not on replacement cost or **some other** basis.

Evaluation of fixed assets in the above manner ~~will~~ enable the City to establish reasonably accurate initial fixed **asset** values.

Once initial records are established, the City will want to concurrently implement the kinds of controls and procedures enabling it to maintain control over the fixed assets. **These** procedures should include:

- Control over the proper input into the records for all fixed asset additions, sales, abandonments, and transfers.
- Periodic reconciliation of detail ledgers to the general **ledger**.
- Periodic inventory of fixed assets **by** location.
- Verification that **any** asset **traded** in for a new acquisition is properly removed from the records.

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## Fixed Asset Disposals

At present, the City, despite the size and dispersion of its facilities, does not have a formal procedure to ensure that disposals of fixed assets, whether by destruction, sale, scrapping, or trade-in, are reported to the accounting department. Without such a procedure, the likelihood of an unrecorded disposal, even a sale with diversion of the related proceeds, increases. A formal policy to ensure the reporting of fixed asset disposals should be adopted and should include: (1) the necessary level of approval based on the value of the asset and (2) reporting to the finance department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to City policy. --

## CERTIFICATES OF PARTICIPATION

### Covenants

Currently, no individual is responsible for monitoring compliance with debt covenants. To ensure ongoing compliance with debt covenants, the provisions of various bond and certificate of participation resolutions should be monitored throughout the year with a summary report presented to management on a regular basis.

### Calculation of Arbitrage

Certificates of participation proceeds are being invested in securities other than state and local government securities (SLGS) which could result in an arbitrage tax. We noted that the City has recently purchased a software program to calculate arbitrage but has not currently implemented it due to software limitations. We commend the City in their efforts to calculate arbitrage and recommend that the City calculate arbitrage on a quarterly basis in order to properly record their potential liability.

On future debt issues we recommend the City assess the true financial benefit, if any, of investing debt proceeds in other than SLGS. The assessment should include the expected interest income reduced by all costs associated with the arbitrage issue (i.e.: tax, management and staff time to calculate the tax, software updates, etc.).

### Lodi Public Improvement Corporation

Article V, Section 4 of the Lodi Public Improvement Corporation (Corporation) bylaws state "The affairs and financial condition of the Corporation shall be audited at the end of the fiscal year (June 30) commencing with fiscal year 1988-1989 by an independent public accountant selected by the Board of Directors (members of the City Council) and a written report of such audit and

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appropriate financial **statements** shall be submitted to the **Board of Directors** prior to the next regular meeting of the **Board of Directors** of the Corporation following the completion of such audit. Additional audits may be authorized as considered **necessary or desirable** by the Board of Directors." It is **our** understanding **that** management **does not consider this** audit **to be** necessary as the **Corporation** and the City **are essentially one in the same** and, as such, the audit of the City's general purpose financial **statements** is sufficient to comply with **this** bylaw. However, as the Corporation is a separate legal entity and its bylaws do currently **require** an audit, we recommend the **Board of Directors** consider the need for an audit of the Corporation and **make** a final determination.

## **INVENTORY**

### **Physical Inventory Procedures**

During our observation of the physical inventory performed during the week of June **30, 1989**, we noted the **following** deficiencies in the physical inventory procedures:

- No written inventory instructions were provided **to** the count teams.
- Numerous small, slow moving items were not counted until the last day of the physical inventory.
- Obsolete items were not separated or designated to allow for count teams **to** easily identify items not to be counted which **caused** numerous delays and erroneous counts of obsolete items.
- Count sheets included many part numbers no longer in existence which caused delays as **the** count teams **were** looking for items the City had not used in years
- Count sheets included the same part number in **two** or three different areas causing **some** items to be double counted.
- Count sheets did not include some **part** numbers which were a part of the physical inventory at June 30, 1989.
- Upon completion of the count in a particular area, the **area** was not marked as being counted in order to avoid double counting or to allow for easy identification that all areas had been counted.
- Numerous errors were made in the water inventory physical counts which caused the need for the entire water department inventory to be recounted by the City and re-observed by KPMG Peat Marwick on the following day

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- No test counts **were performed** by supervisors until **we** brought the **numerous** count errors **to the** water department supervisor's attention.
- Count teams consisted of **only** one individual with no independent verifications being **performed** by a second count team.

**So** that future physical inventories counts may **be** more effective and **efficient**, we suggest the following:

- Comprehensive written inventory instructions should be **prepared** and disseminated to participating personnel well in advance of the physical count. These instructions should be read and understood by all **personal**.
- All stock to be excluded **from** the count (such **as** obsolete **goods**) should be clearly marked or physically segregated, where appropriate, prior to beginning the inventory count.
- The physical count **on** slow-moving or immaterial items could be conducted **1** to **2** weeks in advance.
- Prior year count sheets should not be copied and brought forward to conduct the current year count. This practice carries forward inventory numbers which may not exist in **the** current year. **We** recommend that the city prepare new count sheets which include **only** inventory numbers existing at year end. This will result in a **more efficient** physical inventory and **will** help prevent valuable lost **time** looking **for** inventory which does not exist.
- Counted inventory **areas** should be clearly marked with tape or **some** other kind of identifier in order to prevent any possible erroneous count.. as **a** result of not or double counting a particular **area**.

## **Inventory System**

The inventory system is not computerized and is kept on a card file system. We understand that the City has budgeted for the purchase of **an** inventory software package for fiscal year 1989/1990. **Also, we** understand that the City has looked into purchasing the Oracom inventory software package and has given Oracom instructions **to** tailor an inventory system for the City. We commend you in your efforts to increase the efficiency and accuracy of the inventory system and we encourage your continued efforts. We would also like to recommend that the system purchased include a order point "flagging" system to ensure adequate stock levels.

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## **Security Over inventory**

Greater control could be exercised over the material and supply of inventories on hand and the amount of book to physical inventory adjustments at year end could be reduced if: (1) material requisition forms were required to be used for all issuances from the stockyard and (2) the stockyard was locked at all times and access was limited to selected responsible personnel.

## **INTERNAL ACCOUNTING CONTROLS**

### **Review of Internal Accounting Controls over Purchases**

During our compliance testing of the disbursement cycle we noted that in 8 instances (out of 30 sample items) vendor packets did not contain purchase orders. We also noted that purchase orders were sometimes prepared after the purchase was made. To enhance internal accounting controls over purchase activities, we recommend that all purchases be required to have a properly approved purchase order prior to the purchase transaction and that a copy of the purchase order be maintained in the individual vendor packet. To help implement this policy we recommend the accounts payable department not accept a request for payment unless the vendor packet includes an approved purchase order. This will minimize occurrences of unauthorized or unapproved purchases.

### **Documentation of Control Over Purchases**

When invoices are received the unit price on the invoice is compared to the unit price per the purchase order and any discrepancies are investigated. If the vendor is incorrect, the invoice is changed accordingly. This is an effective control procedure, however, it is not documented by the person making this comparison. To establish accountability for the review process, invoices should be initialed to signify agreement with the approved unit price per the purchase order. This will provide the check signer assurance that payment is made at the unit price agreed to at the time the order was placed.

## **ELECTRONIC DATA PROCESSING**

### **Updating the Electronic Data Processing System (EDP)**

We noted the City's existing EDP system is approximately fourteen years old and has become very inefficient. We also noted that the sub-ledger system and the general ledger system do not



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interface. While the initial rationale behind not having two systems interface may have been appropriate to improve internal accounting **controls**, the number of manual journal entries needed **as a** direct result of the two systems not **interfacing** has grown **so** numerous that it may no longer be cost beneficial to maintain this **aspect of the control**.

Given the essentially manual **nature of** present accounting operations, we believe that opportunities continue **to exist to (a)** reduce clerical effort **and** increase clerical accuracy, and (b) increase the usefulness and timeliness of management reporting by mechanizing certain accounting operations.

**We** understand the City is exploring the possibility of replacing its current **EDP** system and finding ways of reducing the current number of manual **journal** entries **currently need to** maintain adequate **records**. We encourage the City to continue their efforts to improve efficiency in this **area**.

### **Documentation of Electronic Data Processing System (EDP)**

Currently, only partial documentation of **the EDP** system exists. We wish to emphasize the importance of continually updating system documentation **as programs** and systems are added or **modified**. Up-to-date documentation will enable the City to **make** improvements in the system and to correct **software** problems as encountered with a minimum of cost and effort.

### **Access to EDP Data Files**

Computer files **are** accessible to many employees. Significant reliance is placed on a password system to prevent unauthorized access to **EDP** programs and data. Due to the large **number** of employees with access to these files, we suggest that access control logs be utilized and routinely reviewed for propriety by an individual not having other EDP responsibilities. **In** addition, we suggest that current employee accesses be evaluated and a supervisor's key should be required to access critical information. These controls would help limit unauthorized access to the EDP system, prevent unauthorized changes to critical files, and help ensure the accurate processing of financial information.

## **OTHER MATTERS**

### **Use of Attorneys**

The City currently uses a large number of attorneys (approximately eleven) for various functions. We suggest the City evaluate the responsibilities of these attorneys. Where deemed appropriate, a reduction in the number of attorneys used by the City could reduce expenditures for attorney fees and should enhance the City's ability to monitor the status of legal actions involving the City.

**KPMG** Peat Marwick

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### Investments

We were asked by the City to perform compliance test-work on the City's investment policy. This policy includes a list of investment instruments which are allowable under current legislation of the State of California (Government Code Section 53600 et seq.). We noted investments in stock is not a part of this list. During our test-work we noted the City library's investment portfolio contained common stock valued at \$115,168 at a cost of \$57,085 as of June 30, 1989. The City library obtained this stock through bequests, stock dividends, and dividend reinvestment programs. The dividend reinvestment program is, in effect, the acquisition of stock. To ensure compliance with the City's investment policy, and State of California current legislation, we suggest that management assess the need to sell this stock.

### Operations Letter

Additional suggestions of an operational nature were presented to management under a separate letter also dated October 26, 1989.

\* \* \* \* \*

This report is intended solely for the information and use of the City Council, management, and others within the organization.

Very truly yours,

KPMG Peat Marwick

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## MEMORANDUM

TO: Thomas A. Peterson, City Manager  
FROM: Robert H. Holm, Finance Director  
DATE: February 14, 1990  
SUBJECT: Comments on Auditors' Management Letter  
(Single Audit Suggestions)

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It should be noted that in the auditors' "Single Audit Report," the auditors have stated that while they are not expressing an opinion on the system of internal accounting control of the City taken as a whole, their study, evaluation and audit disclosed no condition that they believe to be a material weakness.

The comments in the SINGLE AUDIT SUGGESTIONS, which in effect are the Management Letter, are intended to improve the internal control system, and the Finance Department Mid-Management staff and I wish to add our responses to the auditors' suggestions.

### Monitoring of Single Audit Grants

Peat Marwick has stated that administration of grant programs needs to be evaluated and responsibility assigned to one individual to see that compliance with regulations is followed and monies are received, so that future grants could not be lost because of noncompliance.

In the past, the City has received grants in more than one area, i.e., Park Bond Grant where the Parks and Recreation Director works with the Public Works Director regarding application for funds, design of projects, expenditure of funds, etc. Also, grants have been received in the Police Department for criminal apprehension and drug suppression, and the expertise of the Police Department is needed to monitor the grant. Trying to assign one person the responsibility of monitoring all grants who would have the expertise needed in all areas of grants would be difficult. Also, state and federal grants seem to be disappearing from the horizon. As of this writing, the City has never been informed it has not complied with grants nor have we been threatened with the loss of a grant for noncompliance.

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## FIXED ASSETS

Establish Fixed Assets Records and Control

The implementation of a fixed asset system has always been a goal of the Finance Department. However, it is a cost item. As far back as 1976-77, we submitted budget requests to have an appraisal of our fixed assets in order to eliminate the item on each year's audit. Back in those earlier years, the costs were around \$25,000.00 for this service, and today we are looking at something in the area of \$50,000.00-\$60,000.00 for this type of appraisal. While in the earlier years, we thought this type of a disclaimer on our audit regarding fixed assets would give us a lower bond rating, we found out differently when we sold the \$4.5 million of Sewer Plant Expansion Certificates. The disclaimer regarding the fixed assets did not have a measurable affect. What really counts with the rating agencies is the ability to pay or the revenue stream to guarantee bond debt payments.

To install and maintain as sophisticated a system as recommended by the auditors would require an entry level Accountant I in the area of \$20,000.00 annually.

We presently have \$6,300.00 budgeted in this budget to purchase a property management system. Since we already have a manual system for small equipment items such as V.C.R.'s, T.V.'s, personal computers, data entry terminals, etc., all of the manually maintained items would be transferred into this computer system. This, we hope, should satisfy the auditors' concerns for recording the most vulnerable assets (equipment) for a minimal expenditure. Also, we feel this strikes a balance between the auditors' recommendation and the limited financial resources available,

## CERTIFICATES OF PARTICIPATION

Covenants

Peat Marwick states that no one individual has been named as being responsible for monitoring compliance with debt covenants.

The four most significant requirements in the bond covenant are:

1. Rate Covenant--The net sewer operating revenues must be 1.10 times the aggregate annual debt payment.
2. Excess Costs--The City agrees to pay the excess construction costs over the amount of bond proceeds.

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3. Installment Payments--The City agrees to **make** all debt payments on schedule.
4. Insurance--The City agrees to provide P.L. and P.D. and fire **insurance** with extended coverage.

While the City has not named a specific individual to monitor compliance with the debt covenants, it has been a team effort ever **since** the certificates were sold. For example, both the Assistant City Manager and I check to **see** the net sewer operating revenue **estimates** are 1.10 times the annual debt at budget time. As far as **excess costs** are concerned, the net proceeds from **the** certificates for construction purposes were \$7,826,965.00, and the contract **has** been awarded at \$9,681,218.00 which leaves \$1,854,253.00 to be picked up as **excess costs** by the City. In addition to that, the purchase of land from City **funds**, other than Certificate **proceeds**, has been \$1,140,360.00. So, we have met the excess cost requirement. The **installment** payments are calendared in our office, and the trustee (Bank of America) **sends** a statement two **weeks** prior to the installments **being** due. The insurance certificates **are** mailed to the trustee **annually** by the Assistant City Manager. The most significant bond **covenants** are covered by the City as a team effort, as I **stated** earlier, and I don't believe naming a compliance officer or person is necessary.

#### Calculation of Arbitrage

Peat Marwick has stated that the **proceeds** from certificates have been invested in securities other than state or local **government** securities (SLGS) which could result in payment of an arbitrage tax. Peat Marwick also states we have not implemented the software to calculate the arbitrage tax, and we should investigate investing in state and local government securities.

The proceeds of the sale of certificates were, or, the advice of trustee and financial consultant, invested in a U. S. Treasury Securities Money Market Fund. The limitations on the software **were** due to the fact **that** the U. S. Congress passed the Omnibus Budget Reconciliation Act of 1989 and the laws **concerning** calculation and rebate of arbitrage **were not** published in time. As reported in the December 11, 1989 Nations Cities Weekly, the National League of Cities newspaper:

The arbitrage law leaves traditional tax exempt bonds issued between September 1, 1986 and the date of enactment in a twilight zone. These bonds are subject to the 1986 arbitrage and rebate provisions, although the Treasury has not completed or finalized its own regulations.

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Peat Marwick's statement regarding implementation of software was misstated. Calculations were made **using** the software, however, the laws were not **clear** regarding the impact of the City's new sewer debt. **The software** update will be completed by **March**, 1990, and we will recalculate **the** arbitrage. The three main problems with investing in **SLGS** are, **one** extreme difficulty in timing the maturities for construction **payments**; **two** difficulty to locate a **secondary** market; and, **three**, the rate of return on **SLGS** is less than the arbitrage limit on our certificates which is 7,812 per **cent**. **This** results in less investment income for construction use,

Lodi Public Improvement Corporation (LPIC)

Peat Marwick states the LPIC is required to have an annual audit at the end, of each fiscal year by an independent public accountant and a written report **submitted**. While the articles of incorporation did state an audit is required, I feel the Board of Directors **should meet** and determine the annual audit not necessary for the following reasons:

- 1, The Lodi Public Improvement Corporation was formed for the **sole** purpose of issuing the Certificates of Participation for the expansion of the sewer plant and for any other future sales of certificates.
2. The proceeds (assets) and the installment **payments** (liabilities) **were** transferred to the City of Lodi on **the same day** as the sale took place, **i.e., August 25, 1988**. As of the next day, and, also at the end of the fiscal year, there were no funds to report held in the LPIC, **i.e., no finances** to report.

If the Board of Directors of the LPIC **wishes** to have an audit, I would recommend it be included in the general audit of the City's records. The Board would have to meet and declare **this intention**.

INVENTORY

(see memorandum from Joel Harris, Purchasing Officer)

ELECTRONIC DATA PROCESSING

(see memorandum from Roy Todd, Data Processing Manager)

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## OTHER MATTERS

Use of Attorneys

(see memorandum from Bob McNatt, City Attorney)

Investments

Peat Marwick's comment on this item is the same as last year's auditors'. In my contact with the City Librarian last year, he indicated that unless the City Council direct the Library Board of Trustees to sell the stock, they were going to continue to hold on to the stock and receive stock dividends as a reinvestment. As City Treasurer, I am not allowed, under government code, to invest in corporate stock. Since I have not purchased the stock, I, therefore, do not list the stock as part of my investment report to the City council. To me, it is a technicality as to the reinvestment of dividends into additional stock that the auditors are expressing a comment. The City Council may want to direct the Library Board of Trustees to sell the stock and not have the auditors' comment reappear next year. --

  
Robert H. Holm  
Finance Director/Treasurer

RHH:ss

## MEMORANDUM

To: Robert Holm, Finance Director  
From: Joel Harris, Purchasing Officer  
Date: February 9, 1990  
Subj: KPMG Peat Marwick review of Inventory Audit

These are my views and comments regarding the auditors' October 26, 1989 review of the 1988/89 year-end audit, as it pertains to purchasing activities.

As in their earlier proposal, the report contains several inaccuracies. Generally, however, it recommends that the purchasing and inventory procedures be done by the book, and that recommendation can't be faulted.

The first point made, that there were no written instructions for Randy and Tom to follow, is correct. About three weeks prior to inventory the three of us met to establish a schedule and plan for the count. Slow-moving, multiple-location, and non-inventory items were identified, and a plan for counting by area was established.

The plan for taking inventory was to count sections of the warehouse, to begin at one end of each section and count all items therein in order of location. Several of the sections did contain slow-moving items, but few required a time-consuming counting process. However, future counts will incorporate a plan to count, seal, and tag containers of more slow-moving parts in advance of the inventory so the overall count can be expedited.

Points three and four of the review, dealing with obsolete items and part numbers no longer in existence, is inaccurate except for the transformers. At the time of the inventory, we had no accurate list of transformers in stock, on hold, or otherwise held for disposition.

Point five is correct in that items are stored in more than one location. We have a location from which stock is issued, and in many cases one or more additional locations where full case or full pallet quantities are stored.

I'm not aware of the parts to which they refer in point six. I do know that during the fiscal year, several items with zero inventory on June 30, 1988, and no plan for future use, were removed from the list. However, if an item was counted in 1988 and remained in inventory during the year, it appeared on the 1989 list and was counted.



The next point is accurate in that areas were not marked as completed. While the team counts the areas systematically to avoid double-counting, it is conceivable that lack of markings could result in an area being missed.

The suggestions offered on Page 6 of the letter are generally good, and although there are inaccuracies in the preceding section the overall emphasis is positive. It would be in our interest to incorporate as many as possible of the suggestions offered.

The suggestion made in the paragraph titled "Inventory System" regarding an order point flagging system has been noted.

Referring to the paragraph titled "Security Over Inventory", our department uses Materials Issued Forms or Stores Inventory Requisitions for all items over which we have control. However, the issue of locking the stockyard is something we may not be able to accomplish, since the yard must be accessible to Public Works' as well as Electric Utility employees for reasons other than access to stock. While the wire storage area and the warehouse have limited access, the outside areas have no such security, unfortunately.

In the section titled "Internal Accounting Procedures", the paragraph dealing with preparation of approved purchase orders has excellent recommendations. (A couple of departments still prepare the purchase orders from the invoices; one supervisor explained he doesn't have time to get prices when he places his orders (!), and that it's easier for the secretary to get the information from the invoices).

This issue is covered clearly in LMC Section 3.20.080, which states "Purchases.. shall be made only by purchase orders", and not that purchase orders shall be prepared to legitimize the purchase after delivery is made. Enforcement of the code is a key factor in implementing this suggestion from the auditors.

The suggestion under "Documentation" has also been noted, and will be followed in all cases where we review the invoices.

Again, most of the suggestions are positive and have been taken in the spirit of improving our system. All efforts will be made to implement as many of the recommendations as possible this year, with the overall goal being to work to better safeguard the public materials and funds for which we're responsible.

M E M O R A N D U M

To: Bob Holm, Finance Director  
From: Roy Todd, Data Processing Manager  
Date: February 9, 1990  
Subject: Auditors Comments, Data Processing - October 26, 1989

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As requested - response to Auditors Comments regarding City of Lodi Data Processing:

**A. Updating the Electronic Data Processing System (EDP)**

The General Accounting System is a very old and manual System. The General and Sub-ledgers do not interface, and manual entries are an inherent part of the design - apparently for the purpose of providing internal controls.

The Auditors are correct in their conclusions that:

1. We can automate this process and still provide for any level of control desired.
2. We can reduce clerical effort and improve accuracy with System enhancements.

However, this is not easily done. This is an application that has very far reaching and complex considerations. Changes to the Accounting process effects every other Application in the Computer, and has direct effects on all Departments in the City.

While we are intent upon improving this System, we do not have a specific plan. We are attempting to improve all of the Application Systems as we are able - as priorities dictate. GA does not currently have the *top* priority.

**E. Documentation of Electronic Data Processing System (EDP)**

The Auditors are correct in saying our Documentation is partial.

They have correctly stated our Documentation needs to be continually updated - and that up-to-date Documentation will improve our ability to improve and maintain existing Software.

What they have not said is:

1. Without complete Documentation, we are at risk -- having a dependance upon individuals who possess the undocumented knowledge.
2. Without proper Documentation, we are dependant upon -
  - a. Knowledgeable Computer Users to assist and train new people.
  - b. Computer Users making the correct use of the facilities without the benefit of written instructions.
  - c. Informed individuals to correctly and completely communicate Computer functions to Management and others.

Complete Documentation is very costly to create and maintain. It is extremely valuable in a crisis or when a change is made (i.e. System is changed, new Employee, etc.) -- however, it is unnecessary as long as nothing goes wrong and no changes are made.

We will continue to work at improving our Documentation -- but until we really acquire the upper hand in Applications and System Maintenance, it will probably continue to be low priority.

### C. Access to EDP Data Filer

Reference is made to "Access Control Logs" and a "Supervisor's Key" to be **used** in controlling or recording the access to Data Files.

I am not familiar with either of these -- but I can imagine what they are referring to. A "log" of activity will not control access -- but it might help in identifying inappropriate access after the fact (if the activity is recorded by "honest" people). A "Supervisor's Key" might be an extension of the password approach to security, or it may be a real, physical key (as would unlock a door).

Our Security is dependant upon a password. The Computer allows a limited number of attempts to obtain access and then disallows access until a Security person reinstates the Computer terminal. Once a person has obtained access to the Computer, internal Security allows access to select Files on the basis of User (i.e. General Accounting can access GA Files, Payroll can access PR Files, etc.). This is known as "Resource Security" - still, however, depends on a password.

Additional Security is obtained through controlled access to the Computer, by lock and key, and by continual monitoring of the System and it's contents by myself and Data Processing Personnel.

We do not have a Security problem that I am aware of - as far as the protection of Data is concerned. If Data were tampered with, the clerical and Accounting staff would quickly report it.

Security measures could be taken to further protect us from the most likely area of risk -- the Data Processing staff. Once again, though, this would be very costly. I believe our internal controls protect us from this, but a clever Programmer intent upon doing a dastardly deed could accomplish this with time and effort. If we have a real concern, there are steps we can take toward minimizing this risk - but with each step comes an inconvenience and the accompanying overhead. If we recall keys to the building, we will have to provide other access; if we want specific Computer controlled access, we will have to acquire the software, and manage the task (I am not aware of existing Software for the S/36).

Or? larger Computer systems with increased levels of Security concerns, Software can be purchased - this is atypical of a Data Processing environment our size. We are growing to the point where Security concerns may increase, however, and we may want to take more precaution - perhaps within 5 years (or less with the Police Department).

MEMORANDUM  
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To: tionorable Mayor and Council Members  
From: City Attorney  
Date: February 9, 1990  
Subj: PEAT MARWICK AUDIT LETTER IN RE "USE OF ATTORNEYS"

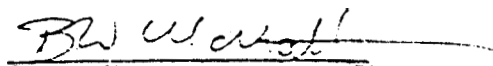
I am in receipt of a letter dated October 26, 1989 from the accounting firm of Peat Marwick, which I had not seen before this week. I was aware that the City had retained Peat Marwick for the financial audit, but was surprised at the contents of the letter.

Specifically, a portion of the letter (page 8) addresses the City's retention of outside law firms to represent our interests in various courts or agencies. I think three observations are appropriate:

- 1) I was unaware that Peat Marwick had been retained to do an efficiency study and provide us with this type of recommendation. It was my belief that they had simply been retained for a general purpose financial audit.
- 2) The auditors stated that the City currently uses "approximately 11 attorneys" for various functions. This is based on the auditing firm's apparent lack of familiarity with the facts. They apparently included in their total of "11 attorneys" myself, 2 firms which actually represent NCPA and not Lodi individually, bond counsel (which State law requires to be from outside the City Attorney's office) and firms under retainer to insurance companies covering the City, as well as specialized firms handling individual matters for the City.
- 3) Assuming they were correct on everything else, I am sure what these observations would add to our ability to monitor the status of legal actions involving the City.

I feel these gratuitous remarks add nothing to the audit. However, if the Council feels it is necessary, I would be happy to respond further.

Respectfully submitted,



Bob McNatt  
City Attorney

BM:vc

cc: City Manager  
finance Director  
Peat Marwick



Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Independent Auditors' Report

The **Honorable** Members of City Council  
City of Lodi, California:

We have applied certain agreed-upon procedures enumerated below with respect to the Statement of Investment Policy adopted by Council Resolution **88-128**. **Our** review was made solely **to** assist **you** in evaluating compliance with that policy. It is understood that this report is solely for your information and is not to **be** referred to or dismbuted for any purpose to anyone who is not a member **of** the City Council or management of the City of Lodi, California. **Our** procedures and findings **are summarized** as follows:

1. We confirmed the City's investments as of June 30, **1989**. We noted **no unreconcilable** differences between the confirmed investment balances at June **30, 1989** and the general ledger investment balances at June **30, 1989**.
2. We reviewed management's compliance with the Statement of Investment Policy. The City was not in compliance with the Statement of Investment Policy as to allowable investment instruments as the City Library's investment portfolio contained common stock valued at **\$115,168** with a cost basis of **\$57,085** at June **30, 1989**. **The** Library obtained this stock through bequests, stock dividends, and dividend reinvestment programs. The dividend reinvestment program is, in effect, the acquisition of stock. The investment policy does not identify stock as **an** allowable investment.

Because the above procedures **do** not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the items referred **to** above. **In** connection with **the** procedures referred **to** above, no inatters **came** to our attention that caused **us** to believe that City management did not comply with the Statement of Investment Policy adopted by Council Resolution 88-128, except **as** noted above. **Had** we performed additional procedures or had we conducted an audit of the Statement of Investment Policy in accordance with **with** generally accepted auditing standards, matters **might** have come to **our** attention that would have been reported to **you**. This reports relates only to the items **specified** above and does not extend to any financial statements of the City of Lodi, California, taken as a whole.

*KPMG Peat Marwick*

October 26, 1989



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**CITY OF LODI, CALIFORNIA**

**Single Audit Reports**

**Year Ended June 30, 1989**

**CITY OF LODI, CALIFORNIA**

**Single Audit Reports**

**Year Ended June 30, 1989**

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Certified Public Accountants

2495 Natomas Park Drive  
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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING CONTROLS AT THE  
GENERAL PURPOSE FINANCIAL STATEMENT LEVEL**

The ~~Honorable~~ Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California for the **year** ended June 30, 1989, and have issued our report thereon dated October 26, 1989, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for examination and as such, we were unable to satisfy ourselves with respect to these accounts. These general purpose financial statements **are the responsibility** of the City's management. Our responsibility is to express an **opinion on** these general purpose financial statements **based on our** audit.

We conducted our audit in accordance with generally accepted auditing standards and Government **Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with **those standards** includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for **our** opinions.

Under the date of October 26, 1989, we reported separately on **the** results of our study and evaluation of internal accounting **and** administrative controls **used** in administering federal financial assistance programs. The results of our study and evaluation of internal controls other than those **used** in administering federal financial assistance programs are presented herein. For the purpose of this **report**, we have classified the significant internal accounting controls **in** the following category: expenditures and encumbrances. Our study and evaluation included **all** the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of auditing procedures necessary for expressing an opinion on the general purpose financial statements of the City of **Lodi**, California. Our study and evaluation was more limited than would **be** necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of control identified above.



The management of the City of Lodi, California is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first three paragraphs would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Lodi, California, taken as a whole or on any of the categories of controls identified in the third paragraph. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness. In our letter to management dated October 26, 1989, we have separately communicated our observations and recommendations regarding certain other matters, including those pertaining to nonmaterial internal control findings.

This report is intended for the information of the City Council, management, and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Lodi, California, is a matter of public record.

*KPMG Peat Marwick*

October 26, 1989



Peat Marwick

Certified Public Accountants

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# **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AT THE GENERAL PURPOSE FINANCIAL STATEMENT LEVEL**

The Honorable ~~Members~~ of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California as of and for the year ended June 30, 1989, and have issued our report thereon dated October 26, 1989, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for examination and as such, we were unable to satisfy ourselves with respect to these accounts.

We conducted our audit in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Lodi, California is the responsibility of the City of Lodi, California's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City of Lodi, California's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the City of Lodi, California complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that The City of Lodi, California had not complied, in all material respects, with those provisions.

This report is intended for the information of the City Council, management and the U.S. Department of Housing and Urban Development. This resmction is not intended to limit the distribution of this report, which, upon acceptance by the City of Lodi, California, is a matter of public record.

*KPMG Peat Marwick*

October 26, 1989



Peat Marwick

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**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

**The Honorable Members of City Council  
City of Lodi, California:**

We have audited the general purpose financial statements of the City of Lodi, California for the year ended June 30, 1989, and have issued our report thereon dated October 26, 1989, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for examination and as such, we were unable to satisfy ourselves with respect to these accounts. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements and whether management has complied with laws and regulations. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Lodi, California, taken as a whole. The supplementary information included in the accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*KPMG Peat Marwick*

October 26, 1989

**CITY OF LODI, CALIFORNIA**  
**Schedule of Federal Financial Assistance**  
**For the Year Ended June 30, 1989**

<u>Federal Grantor Program Title</u>	<u>Federal CFDA or Grantor's Pass-Through Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>		
Community Development Block Grants:		
1988-1989 Program Year	14.219	\$ 39,056
1987-1988 Program Year	14.219	35,481
1985-1987 Program Years	14.219	<u>63,392</u>
		<u>137,929</u>
<u>U.S. Treasury Department:</u>		
Federal Revenue Sharing	21.300	428
<u>U.S. Department of Transportation(Pass-through State Office of Criminal Justice Planning):</u>		
Federal Urban Aid	20.205	5,319
<u>U.S. Department of Justice (Pass-through State Office of Criminal Justice Planning):</u>		
Career Criminal Apprehension Program	CR85027235.0	50,512
Drug Suppression Program	CA86017235.0	<u>37,245</u>
Total Federal Financial Assistance		<u>\$231,433</u>

See accompanying notes to schedule of federal financial assistance.

## **CITY OF LODI, CALIFORNIA**

### **Notes to Schedule of Federal Financial Assistance**

**June 30, 1989**

#### **(1) General**

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal financial assistance programs of the City of Lodi, California. The City of Lodi, reporting entity is defined in note 1 to the City's general purpose financial statements. Federal financial assistance is received directly from federal agencies and through other government agencies.

#### **(2) Basis of Accounting - Grant Programs**

The Schedule of Federal Financial Assistance has been prepared on the modified accrual basis of accounting which is described in note 1 to the City's general purpose financial statements.

#### **(3) Relationship to General Purpose Financial Statements**

Federal financial assistance revenues are reported in the City's general purpose financial statements as follows:

	<u>Intergovernmental Revenue</u>
General Fund	\$ 25,739
Special Revenue Fund	<u>186,890</u>
Total	<u>\$ 212,629</u>

Total Federal assistance revenues do not agree with expenditures reported on the Schedule of Federal Financial Assistance due to the timing of the submission of claims for reimbursement of expenditures.

#### **(4) Relationship to Federal Financial Reports**

Amounts reported in the accompanying schedule agree with the amounts reported in the  
related federal  
financial reports.



Peat Marwick

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS  
AT THE FEDERAL FINANCIAL ASSISTANCE PROGRAM LEVEL  
MAJOR PROGRAMS MORE THAN 50 PERCENT**

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California, for the year ended June 30, 1989, and have issued our report thereon dated October 26, 1989, which was qualified because adequate historical cost records of general and proprietary fund fixed assets and proprietary fund contributed capital were not available for examination and as such, we were unable to satisfy ourselves with respect to these accounts. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with those standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Under the date of October 26, 1989, we reported separately on the results of our study and evaluation of internal accounting controls performed in connection with our audit of the general purpose financial statements. The results of our study and evaluation of internal accounting and administrative controls used in administering federal financial assistance programs are presented herein.

For the purpose of this report we have classified the significant internal accounting and administrative controls used in administering the major federal financial assistance programs in the following categories:

- **Accounting controls**
  - Expenditures and encumbrances

- **Administrative controls**

**General Requirements:**

- Political activity;
- Davis-Bacon Act;
- Civil rights;
- Cash management;
- Relocation assistance and real property acquisition; and
- Federal financial reports.

**Specific Requirements:**

- Types of services;
- Eligibility;
- Matching, level of effort, and/or earmarking requirements;
- Reporting;
  - Special requirements;
- Cost Allocation; and
- Monitoring subrecipients.

Our study and evaluation included all the control categories listed above, except that we did not evaluate the accounting controls over relocation assistance and real property acquisition, eligibility, matching, level of effort, and/or earmarking requirements, cost allocation, or monitoring subrecipients because these requirements were not applicable to the major programs at the City of Lodi, California for the year ended June 30, 1989.

The management of the City of Lodi, California, is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

During the year ended June 30, 1989, the City of Lodi, California, expended 59.6 percent of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such

errors and irregularities, determining whether necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering nonmajor federal financial assistance programs, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Accordingly, our audit would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

Our study and evaluation described in the two preceding paragraphs was more limited than would be necessary to express an opinion on the internal control systems used in administering the major and nonmajor federal financial assistance programs of the City of Lodi, California. Accordingly, we do not express an opinion on the internal control systems used in administering the major and nonmajor federal financial assistance programs of the City of Lodi, California. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of the City of Lodi, California. In our letter to management dated October 26, 1989, we have separately communicated our observations and recommendations regarding certain other matters, including those pertaining to nonmaterial internal control findings.

This report is intended solely for the use of the City Council, management, and the U.S. Department of Housing and Urban Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Lodi, California, is a matter of public record.

*KPMG Peat Marwick*

October 26, 1989





Certified Public Accountants

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Sacramento, CA 95833 2936

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE  
TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

The Honorable Members of City Council  
City of Lodi, California:

We have audited the City of Lodi, California's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program, which is identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 1989. The management of the City of Lodi, California is responsible for the City of Lodi, California's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Governmental Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City of Lodi, California's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Lodi, California, complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program for the year ended June 30, 1989.

*KPMG Peat Marwick*

October 26, 1989



Certified Public Accountants

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH GENERAL REQUIREMENTS**

The Honorable Members of City Council  
City of Lodi, California:

We have applied procedures to test the City of Lodi, California's compliance with the following requirements applicable to its major federal financial assistance program, which is identified in the schedule of federal financial assistance, for the year ended June 30, 1989: political activity; Davis-Bacon Act; civil rights; cash management; and federal financial reports.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City of Lodi, California's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Lodi, California had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the City Council, management, and the U.S. Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*KPMG Peat Marwick*

October 26, 1989

**CITY OF LODI, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Housing and Urban Development  
Community Development Block Grants**

**Finding:** In our tests of compliance with general regulations established by the U.S. Department of Housing and Urban Development (HUD) we noted the City has spent 28% (\$39,000) of total expenditures on planning and administration. HUD requires that no more than 20% of total expenditures be related to planning and administration during the fiscal year ending June 30, 1989. We also noted that the City does not maintain a schedule of total planning and administration expenditures; therefore, they are unable to determine if they are in compliance with HUD regulations.

**Recommendation:** The City should ensure that they are in compliance with HUD regulations by maintaining appropriate documentation and periodically monitoring their compliance.

**City's response:** The City of Lodi is allocated 20% of its total award for administrative costs, and this amount is budgeted and shown in the monthly expenditure reports as a separate item. At no point has the City exceeded the allocated amount. The City's documentation of expenditures for both project costs and administrative costs have been reviewed by both the U.S. Department of Housing and Urban Development and by the San Joaquin County Planning and Building Inspection--Neighborhood Preservation Division in addition to periodic review by City staff. We have never been advised of a problem with administrative costs.

**CITY OF LODI, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Justice**  
**(Pass-through State Office of Criminal Justice Planning)**  
**Career Criminal Apprehension Program**

**Finding:** In our tests of compliance over the City's administrative controls over the Career Criminal Apprehension Program we noted that there was no individual responsible during the year under audit for monitoring and maintaining compliance with the regulations imposed on the use of funds received under this federal program.

**Recommendation:** The City should appoint an individual to monitor compliance with regulations in order to ensure compliance and avoid the possible loss of future grant monies.

**City's response:** In the initial grant request in 1984 and subsequent approval by the Lodi City Council and the State Office of Criminal Justice Planning, the City of Lodi's Chief of Police Floyd Williams was named as Project Director and Lodi's Police Captain Larry Hansen was named as Project Manager. Ongoing monitoring of each phase was conducted by the staff of OCJP. Their summary and conclusions and follow up actions did not indicate a problem with the City's compliance with the grant or needing a City appointed individual to monitor the grant.

**CITY OF LODI, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Justice**  
**(Pass-through State Office of Criminal Justice Planning)**  
**Drug Suppression Program**

**Finding:** In our tests of compliance over the City's administrative controls over the Drug Suppression Program we noted that there was no individual responsible during the year under audit for monitoring and maintaining compliance with the regulations imposed on the use of funds received under this federal program.

**Recommendation:** The City should appoint an individual to monitor compliance with regulations in order to ensure compliance and avoid the possible loss of future grant monies.

**City's response:** As in the Career Criminal Apprehension Grant, this grant also has the City of Lodi's Police Chief Floyd Williams named as Project Director and, therefore, is the person responsible for monitoring compliance with the conditions of the grant.

**CITY OF LODI, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**U.S. Treasury Department**  
**Federal Revenue Sharing**

**Finding:** In our tests of compliance over the City's administrative controls over the Federal Revenue Sharing Program we noted that there was no individual responsible during the year under audit for monitoring and maintaining compliance with the regulations imposed on the use of funds received under this federal program.

**Recommendation:** While the Federal Office of Revenue Sharing does not disburse funds at the present time the monitoring of Revenue Sharing monies is still required until the funds are exhausted. The City should appoint an individual to monitor compliance with regulations in order to ensure compliance as required by the program.

**City's response:** All of the Federal Revenue Sharing funds were appropriated for specific purposes, and the necessary public hearings were held at the time. Required use reports and published notices of expenditures were complied with. Both the City Manager and the Finance Director monitor the expenditure of unexpended appropriated funds and, therefore, are in compliance.



**Peat Marwick**

**Certified Public Accountants**

5

**CITY OF LODI**

**General Purpose Financial Statements  
and Supplementary Information**

**Year Ended June 30, 1989**

**(With Independent Auditors' Report Thereon)**

**CITY OF LODI**  
**General Purpose Financial Statements**  
**and, Supplementary Information**

**Year Ended June 30, 1989**

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Certified Public Accountants

2495 Natomas Park Drive  
Sacramento, CA 95833 2936

Independent Auditors' Report

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California, as of and for the year ended June 30, 1989, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City does not maintain complete historical cost records of its general and proprietary fund fixed assets and proprietary fund contributed capital. Accordingly, we were unable to satisfy ourselves with respect to fixed asset balances of \$6,837,685 and \$24,086,679 in the general fixed asset account group and the proprietary funds, respectively, depreciation expense of \$1,709,944 in the proprietary funds, and unrecorded contributed capital.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate fixed assets records and proprietary contributed capital records as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lodi, California, at June 30, 1989, and the results of its operations and the changes in financial position of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

(Continued)

**KPMG** Peat Marwick

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Lodi, California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate fixed assets records and proprietary contributed capital records as discussed in the second preceding paragraph, the supplementary information referred to above, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*KPMG Peat Marwick*

October 26, 1989

# CITY OF LODI

## Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1989

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b><u>Assets</u></b>				
Cash and investments (note 3)	\$ 2,220,678	1,461,856	21,161	3,822,215
Restricted assets (note 3)	-	-	203,000	-
Receivables (net of allowances for uncollectables):				
Accounts	348,479	3,940	-	490,475
Property taxes (note 4)	562,745	-	8,472	-
Special assessments	-	-	-	-
Interest	66,197	15,829	485	1,038
Due from other funds or governmental agencies (notes 5 and 7)	-	39,519	328,433	427,600
Inventory	97,345	-	-	-
Other assets	27,380	-	-	-
Fixed assets	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
<b>Total assets</b>	<b>\$ 3,322,824</b>	<b>1,521,144</b>	<b>561,551</b>	<b>4,741,328</b>

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
16,875,887	1,794,297	7,740,793	-	-	33,936,887
8,446,350	-	-	-	-	8,649,350
2,042,148	-	36,505	-	-	2,921,547
47,779	-	53,781	-	-	672,777
-	-	315,000	-	-	315,000
257,810	18,624	28,742	-	-	388,725
1,033,333	-	-	-	-	1,828,885
1,467,331	-	-	-	-	1,564,676
17,796	-	-	-	-	45,176
24,086,679	-	-	6,837,685	-	30,924,364
-	-	-	-	4,475,801	4,475,801
<u>54,275,113</u>	<u>1,812,921</u>	<u>8,174,821</u>	<u>6,837,685</u>	<u>4,475,801</u>	<u>85,723,188</u>

(Continued)

## CITY OF LODI

## Combined Balance Sheet - All Fund Types and Account Groups - Continued

June 30, 1989

## Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b><u>Liabilities and Fund Equity</u></b>				
<b>Liabilities:</b>				
Accounts payable and other liabilities	\$ 508,027	38,144	57	265,071
Accrued salaries and wages	182,048	10,098	-	2,900
Accrued interest	-	-	-	-
Due to other funds (note 7)	9,412	68,500	-	359,100
Accrued compensated absences (note 6)	903,410	-	-	-
Deferred compensation payable (note 11)	-	-	-	-
Deferred revenue	240	-	315,000	-
Self-insurance reserve	-	-	-	-
Capitalized lease obligations (note 6)	-	-	-	-
Certificates of participation payable, net of discount (note 6)	-	-	-	-
Bonds payable, net of discount (note 6)	-	-	-	-
<b>Total liabilities</b>	<u>1,603,137</u>	<u>116,742</u>	<u>315,057</u>	<u>627,071</u>
<b>Fund equity:</b>				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	-
<b>Fund balance:</b>				
Reserved for encumbrances	60,357	35,007	-	199,023
Unreserved - designated	-	1,369,395	246,494	3,915,234
Unreserved	<u>1,659,330</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund equity</b>	<u>1,719,687</u>	<u>1,404,402</u>	<u>246,494</u>	<u>4,114,257</u>
<b>Contingent liabilities (note 11)</b>				
<b>Total liabilities and fund equity</b>	<u>\$ 3,322,824</u>	<u>1,521,144</u>	<u>561,551</u>	<u>4,741,328</u>

See accompanying notes to general purpose financial statements.

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>
841,948	63,421	580,833	-	-	2,297,501
38,955	-	-	-	-	234,001
355,542	-	-	-	-	355,542
1,037,354	-	315,000	-	-	1,789,366
542,345	-	-	-	1,995,310	3,441,065
-	-	5,369,123	-	-	5,369,123
-	-	-	-	-	315,240
-	1,440,854	-	-	-	1,440,854
-	-	-	-	110,728	110,728
8,917,483	-	-	-	-	8,917,483
-	-	-	-	2,369,763	2,369,763
<u>11,733,627</u>	<u>1,504,275</u>	<u>6,264,956</u>	<u>-</u>	<u>4,475,801</u>	<u>26,640,666</u>
-	-	-	6,837,685	-	6,837,685
42,541,486	308,646	-	-	-	42,850,132
-	-	-	-	-	294,387
-	-	1,909,865	-	-	7,440,988
-	-	-	-	-	1,659,330
<u>42,541,486</u>	<u>308,646</u>	<u>1,909,865</u>	<u>6,837,685</u>	<u>-</u>	<u>59,082,522</u>
<u>54,275,113</u>	<u>1,812,921</u>	<u>8,174,821</u>	<u>6,837,685</u>	<u>4,475,801</u>	<u>85,723,188</u>

## CITY OF LODI

Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1989

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
Revenues:						
Taxes	\$ 8,696,973	646,180	50,326	-	-	9,393,479
Licenses and permits	469,738	-	-	-	-	469,738
Intergovernmental revenues	2,096,697	1,164,382	-	-	-	3,261,079
Charges for services	3,730,341	39,451	-	-	-	3,769,792
Fines, forfeits and penalties	338,284	-	-	-	-	338,284
Interest and rental income	805,887	97,503	2,956	652,035	178,592	1,736,973
Miscellaneous revenue	509,383	13,657	20,000	135,600	2,669,151	3,347,791
Total revenue	<u>16,647,303</u>	<u>1,961,173</u>	<u>73,282</u>	<u>787,635</u>	<u>2,847,743</u>	<u>22,317,136</u>
Expenditures:						
Current:						
General government	1,666,520	637,500	-	533,210	-	2,837,230
Public protection	7,523,746	50,512	-	-	-	7,574,258
Public works	2,838,813	761,877	-	844,914	-	4,445,604
Sanitation	3,164,290	-	-	-	-	3,164,290
Library	737,673	-	-	-	-	737,673
Parks and recreation	1,986,225	97,283	-	-	-	2,083,508
Capital outlay	-	-	34,564	2,422,487	937,878	3,394,929
Debt service:						
Interest and fiscal charges	-	-	85,434	-	-	85,434
Principal payments	-	-	390,000	-	-	390,000
Total expenditures	<u>17,917,267</u>	<u>1,547,172</u>	<u>509,998</u>	<u>3,800,611</u>	<u>937,878</u>	<u>24,712,926</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,269,964)</u>	<u>414,001</u>	<u>(436,716)</u>	<u>(3,012,976)</u>	<u>1,909,865</u>	<u>(2,395,790)</u>
Other financing sources (uses):						
Operating transfers in (note 8)	1,349,036	20,118	449,794	1,166,146	-	2,985,094
Operating transfers out (note 8)	(484,941)	-	-	-	-	(484,941)
Other	-	121,634	-	-	-	121,634
Total other financing sources (uses)	<u>864,095</u>	<u>141,752</u>	<u>449,794</u>	<u>1,166,146</u>	<u>-</u>	<u>2,621,787</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(405,869)</u>	<u>555,753</u>	<u>13,078</u>	<u>(1,846,830)</u>	<u>1,909,865</u>	<u>225,997</u>
Fund balances, as restated, June 30, 1988 (note 12)	<u>2,125,556</u>	<u>848,649</u>	<u>233,416</u>	<u>5,961,087</u>	<u>-</u>	<u>9,168,708</u>
Fund balances, June 30, 1989	<u>\$ 1,719,687</u>	<u>1,404,402</u>	<u>246,494</u>	<u>4,114,257</u>	<u>1,909,865</u>	<u>9,394,705</u>

See accompanying notes to general purpose financial statements.

# CITY OF LODI

## Combined Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General and Special Revenue Funds

Year Ended June 30, 1989

	General Fund			Sp
	Budget	Actual	Variance Favorable (Unfavorable)	Budget
Revenues:				
Taxes	\$ 8,446,445	8,696,973	250,528	636,075
Licenses and permits	680,800	469,738	(211,062)	-
Intergovernmental revenues	1,785,780	2,096,697	310,917	1,450,900
Charges for services	3,819,880	3,730,341	(89,539)	44,600
Fines, forfeits and penalties	334,000	338,284	4,284	-
Interest and rental income	598,230	805,887	207,657	51,000
Miscellaneous revenue	309,500	509,383	199,883	7,500
Total revenue	<u>15,974,635</u>	<u>16,647,303</u>	<u>672,668</u>	<u>2,190,075</u>
Expenditures:				
Current:				
General government	1,760,410	1,666,520	93,890	2,036,700
Public protection	6,995,536	7,523,746	(528,210)	43,023
Public works	2,972,384	2,838,813	133,571	1,819,050
Sanitation	3,317,260	3,164,290	152,970	-
Library	764,725	737,673	27,052	-
Parks and recreation	<u>1,869,717</u>	<u>1,986,225</u>	<u>(116,508)</u>	<u>191,703</u>
Total expenditures	<u>17,680,032</u>	<u>17,917,267</u>	<u>(237,235)</u>	<u>4,090,476</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,705,397)</u>	<u>(1,269,964)</u>	<u>435,433</u>	<u>(1,900,401)</u>
Other financing sources (uses):				
Operating transfers in	2,420,625	1,349,036	(1,071,589)	-
Operating transfers out	(1,076,590)	(484,941)	591,649	-
Other	-	-	-	-
Total other financing sources (uses)	<u>1,344,035</u>	<u>864,095</u>	<u>(479,940)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(361,362)</u>	<u>(405,869)</u>	<u>(44,507)</u>	<u>(1,900,401)</u>
Fund balances, as restated, June 30, 1988	<u>2,125,556</u>	<u>2,125,556</u>	<u>-</u>	<u>848,649</u>
Fund balances, June 30, 1989	<u>\$ 1,764,194</u>	<u>1,719,687</u>	<u>(44,507)</u>	<u>(1,051,752)</u>

See accompanying notes to general purpose financial statements.



Special Revenue Fund		Total (Memorandum Only)		
Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
646,180	10,105	9,082,520	9,343,153	(260,633)
-	-	680,800	469,738	211,062
1,164,382	(286,518)	3,236,680	3,261,079	(24,399)
39,451	(5,149)	3,864,480	3,769,792	94,688
-	-	334,000	338,284	(4,284)
97,503	46,503	649,230	903,390	(254,160)
13,657	6,157	317,000	523,040	(206,040)
<u>1,961,173</u>	<u>(228,902)</u>	<u>18,164,710</u>	<u>18,608,476</u>	<u>(443,766)</u>
637,500	1,399,200	3,797,110	2,304,020	1,493,090
50,512	(7,489)	7,038,559	7,574,258	(535,699)
761,877	1,057,173	4,791,434	3,600,690	1,190,744
-	-	3,317,260	3,164,290	152,970
-	-	764,725	737,673	27,052
97,283	94,420	2,061,420	2,083,508	(22,088)
<u>1,547,172</u>	<u>2,543,304</u>	<u>21,770,508</u>	<u>19,464,439</u>	<u>2,306,069</u>
<u>414,001</u>	<u>2,314,402</u>	<u>(3,605,798)</u>	<u>(855,963)</u>	<u>2,749,835</u>
20,118	20,118	2,420,625	1,369,154	(1,051,471)
-	-	(1,076,590)	(484,941)	591,649
121,634	121,634	-	121,634	121,634
<u>141,752</u>	<u>141,752</u>	<u>1,344,035</u>	<u>1,005,847</u>	<u>(338,188)</u>
555,753	2,456,154	(2,261,763)	149,884	2,411,647
848,649	-	2,974,205	2,974,205	-
<u>1,404,402</u>	<u>2,456,154</u>	<u>712,442</u>	<u>3,124,089</u>	<u>2,411,647</u>

**CITY OF LODI**

**Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings**

**All Proprietary Fund Types**

**Year Ended June 30, 1989**

	<u>Proprietary Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating revenues:			
Charges for services	\$ <u>28,937,107</u>	<u>965,038</u>	<u>29,902,145</u>
Operating expenses:			
Personal services	4,161,641	112,610	4,274,251
Supplies, materials, and services	574,162	269,882	844,044
Utilities and communications	20,968,194	-	20,968,194
Depreciation	1,709,944	-	1,709,944
Benefit payments	261,688	1,293,042	1,554,730
Other	<u>383,882</u>	<u>-</u>	<u>383,882</u>
Total operating expenses	<u>28,059,511</u>	<u>1,675,534</u>	<u>29,735,045</u>
Operating income (loss)	<u>877,596</u>	<u>(710,496)</u>	<u>(167,100)</u>
Nonoperating revenues (expenses):			
Sewer bond taxes	300,605	-	300,605
Interest revenue	2,151,166	119,682	2,270,848
Rent	149,819	-	149,819
Other	571,921	-	571,921
Interest expense	(711,084)	-	(711,084)
Net operating transfers in (out)(note 8)	<u>(2,893,343)</u>	<u>393,190</u>	<u>(2,500,153)</u>
Total nonoperating revenues	<u>(430,916)</u>	<u>512,872</u>	<u>81,956</u>
Net income (loss)	446,680	(197,624)	249,056
Retained earnings, as restated, June 30, 1988 (note 12)	<u>42,094,806</u>	<u>506,270</u>	<u>42,601,076</u>
Retained earnings, June 30, 1989	\$ <u>42,541,486</u>	<u>308,646</u>	<u>42,850,132</u>

See accompanying notes to general purpose financial statements.

# CITY OF LODI

## Combined Statement of Changes in Financial Position

### All Proprietary Fund Types

Year Ended June 30, 1989

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Sources of working capital:			
Operations:			
Net income (loss)	\$ 446,680	(197,624)	249,056
Item not requiring working capital - depreciation	<u>1,709,944</u>	<u>-</u>	<u>1,709,944</u>
Working capital provided by operations	2,156,624	(197,624)	1,959,000
Increase in certificates of participation (net of discount)	<u>8,917,483</u>	<u>-</u>	<u>8,917,483</u>
Total sources of working capital	11,074,107	(197,624)	10,876,483
Uses of working capital:			
Acquisition of fixed assets, net	4,773,212	-	4,773,212
Restatement	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total uses of working capital	<u>4,783,212</u>	<u>-</u>	<u>4,783,212</u>
Net increase (decrease) in working capital	\$ <u>6,290,895</u>	<u>(197,624)</u>	<u>6,093,271</u>

(Continued)

# CITY OF LODI

## Combined Statement of Changes in Financial Position - Continued

### All Proprietary Fund Types

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Elements of net increase (decrease) in working capital:			
Cash and investments	\$ (2,108,163)	331,759	(1,776,404)
Restricted assets	8,446,350	-	8,446,350
Accounts receivable, net	332,125	(1,080)	331,045
Property taxes receivable	47,779	-	47,779
Interest receivable	20,489	2,318	22,807
Due from other funds or government agencies	1,033,333	-	1,033,333
Inventory	148,145	-	148,145
Other assets	(1,178)	(32,000)	(33,178)
Accounts payable and accrued liabilities	(54,925)	(39,783)	(94,708)
Accrued salaries and wages	62,989	-	62,989
Accrued compensated absences	(243,153)	-	(243,153)
Accrued interest	(355,542)	-	(355,542)
Due to other funds	(1,037,354)	-	(1,037,354)
Accrued self insurance claims	-	(458,838)	(458,838)
Net increase (decrease) in working capital	\$ <u>6,290,895</u>	<u>(197,624)</u>	<u>6,093,271</u>

See accompanying notes to general purpose financial statements.

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

**June 30, 1989**

#### **(1) Summary of Significant Accounting Policies**

The City of Lodi (City) was incorporated December 6, 1906, as a municipal corporation under the general laws of the State of California. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public works, public protection, sanitation, library, and parks and recreation.

The accounting policies of the City of Lodi conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

##### **(a) Reporting Entity**

The City's financial statements include the operations of all organizations for which the City Council exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Lodi Public Improvement Corporation (LPIC) is included in the Enterprise Funds as the City has oversight responsibility for this entity.

##### **(b) Basis of Presentation - Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

##### **Governmental Fund Types**

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

- General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes.
- Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- Capital Projects Fund - Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

#### Proprietary Fund Types

Proprietary Funds are used to account for the City's on-going organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following are the City's proprietary fund types:

- Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **Fiduciary Fund Type**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

- **Agency Funds** - Agency funds are used principally to account for collection of special assessments and payment of related bond principal and interest. Agency funds are custodial in nature and do not involve measurement of results of operations.
- **Expendable Trust Fund** - Expendable Trust Fund is used principally to account for funds held by the governmental unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

#### **Account Groups**

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

- **General Fixed Assets Account Group** - This group of accounts is established to account for fixed assets of the City, other than those accounted for in the proprietary funds.
- **General Long-Term Debt Account Group** - This group of accounts is established to account for all long-term obligations of the City except those accounted for in the proprietary funds.

#### **(c) Basis of Accounting**

Governmental funds and Fiduciary fund types use the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when they become both measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term obligations which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, which is recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The accrual basis of accounting is used by the proprietary funds. Unbilled service revenue is accrued in proprietary funds.

#### **(d) Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since the commitments will be honored through subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities.

#### **(e) Cash and Investments**

Cash for most funds is pooled, and interest income from pooled investments is allocated to the various funds based on month-end balances. Available cash is invested in certificates of deposit, bankers acceptances, commercial paper, discount notes, repurchase agreements and savings accounts. Investments are stated at cost or amortized cost, which approximates market.

#### **(f) Inventory**

Inventory is valued at the lower of cost (weighted-average method) or market. The cost of inventory is recorded as an expenditure/expense at the time individual inventory items are consumed (consumption method).

(Continued)



## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(g) General Fixed Assets**

General Fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. Capital leases for buildings, improvements, and equipment are recorded in the general fixed assets account group, and the capital lease obligation payable is recorded in the general long-term debt account group. Contributed fixed assets are recorded in the general fixed assets account group at estimated fair market value at the time received.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, drain systems, and lighting systems are not capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest been capitalized.

#### **(h) Fixed Assets - Enterprise Fund**

Fixed assets owned by the enterprise funds are stated at cost or estimated fair market value at the time received, if donated.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Buildings	15 - 20
Improvements	3 - 5
Machinery and equipment	2 - 20
Utility plant	30

#### **(i) Compensated Absences/Vacation and Sick Leave**

Noncurrent accumulated vacation and vested sick leave benefits for governmental funds are recorded in the General Long-Term Debt Account Group as a liability and also as an amount to be provided by future operations. The amount to be provided by future operations represents the total amount that would be required to be provided from the general operating revenues of the City if all the benefits were to be paid. The current portion, the amount expected to be paid in the next 12 months, is recorded as a liability of the responsible fund type.

Enterprise funds record compensated absences/vacation and sick leave as an expense and liability when earned.

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(j) Self-Insurance**

The City is self-insured for general liability, automobile liability, and workers' compensation. The operating funds are charged premiums by the City's self-insurance funds, which are accounted for as internal service funds. The accrued liability for estimated claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred and not yet reported.

#### **(k) Total (Memorandum Only)**

The total (memorandum only) data are the aggregate of the fund types and account groups and are presented only to facilitate financial analysis. No consolidating or other elimination entries were made in arriving at the totals, thus, they do not represent consolidated information.

#### **(2) Budgetary Data**

The City Council follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The budget is established on an accrual basis.
- Public hearings are conducted during meetings of the City Council to obtain citizen comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The City Manager or designee is authorized to transfer certain budgeted amounts between accounts; however, any revisions that alter the total appropriations on functional expenditure classifications of any fund must be approved by the City Council. The combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds reflect all revisions.
- Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

#### (3) Cash and Investments, and Restricted Assets

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Investments."

The City is authorized to invest in securities of the State of California, U.S. Government, or its agencies; certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan associations; negotiable certificates of deposit; banker's acceptances; commercial paper; local agency investment fund (State pool) demand deposits; repurchase agreements (collateralized by U.S. Treasury securities); pass book savings account demand deposits; and other investments that are, or may become, a legal investment as defined by the State of California Government Code (with prior approval of the Council).

Repurchase agreements entered into by the City are typically short-term in nature and structured to return a specified yield.

Generally accepted accounting principles define three categories of credit risk for securities:

- I Securities that are insured or registered, or for which the securities are held by the City or its agent in the City's name;
- II Securities that are uninsured and unregistered and are held by the broker's or dealer's trust department or agent in the City's name; and
- III Securities that are uninsured and unregistered and held by the broker or dealer, or by its trust department or agent, but not in the City's name.

The following is a recap of cash and investments, and restricted assets at June 30, 1989:

Cash and investments	\$ 33,936,887
Restricted assets	<u>8,649,350</u>
	\$ <u>42,586,237</u>

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

The following is a detail summary of deposits and investments at June 30, 1989:

	<u>Cost</u>	<u>Approximate Market Value</u>	<u>Category</u>
<b><u>Unrestricted:</u></b>			
Cash and deposits	\$ 466,087	-	
Investments:			
Certificates of deposit	8,900,000	8,900,000	III
Commercial paper	1,189,000	1,189,000	I
Banker's acceptances	6,214,850	6,340,000	III
Government National Mortgage Association	1,940,166	1,895,000	I
U.S. Treasury Notes	<u>1,999,286</u>	<u>2,000,000</u>	I
Total categorized unrestricted	20,709,389	20,324,000	
Local agency investment fund	3,430,000	3,430,000	
Various mutual funds	4,371,290	4,405,000	
Various investments	57,085	115,000	I
Retirement funds held:			
Various investments	<u>5,369,123</u>	<u>5,369,000</u>	II
Total unrestricted	<u>33,936,887</u>	<u>33,643,000</u>	
<b><u>Restricted:</u></b>			
Sewer funds:			
Various investments	8,446,350	8,446,000	
Debt service:			
Various deposits and investments	<u>203,000</u>	<u>203,000</u>	
Total restricted	<u>8,649,350</u>	<u>8,649,000</u>	
Total cash and investments, and restricted assets	\$ <u>42,586,237</u>		

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(4) Property Tax**

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. The City's property tax is levied each July 1 on the assessed value listed as of the prior March 1 for all real and personal property located in the City. The assessed value at March 1, 1988, upon which the 1989 levy was based, was \$1,709,069,475.

Taxes are due in two equal installments on November 1 and February 1 following the levy date, payments are delinquent after 40 and 60 days, respectively.

Property taxes levied for the year ended June 30, 1989, are recorded as receivables, net of estimated uncollectibles. The net receivables collected during the year and expected to be collected by August 30, 1989 are recognized as revenues in the year ended June 30, 1989. Net receivables estimated to be collectible subsequent to August 30, 1989 are reflected as deferred revenues.

#### **(5) Due from Other Governments**

Due from other governments of \$39,519 represents amounts due from the State of California and the federal government for expenditures made by the City for various grant programs but not reimbursed prior to June 30, 1989.

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

### (6) Long-Term Debt and Capitalized Lease Obligations

The following is a summary of debt transactions of the City for the year ended June 30, 1989:

	<u>Interest Rates</u>	<u>July 1, 1988</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>June 30, 1989</u>
General long-term debt account group:					
Compensated absences	-	\$ 994,689	1,000,621	-	1,995,310
General obligation bonds:					
1965 Municipal improvement bonds:					
Series A	3.50%	2,055,000	-	225,000	1,830,000
Series B	4.5-5.25%	275,000	-	40,000	235,000
Series C	5.70%	105,000	-	105,000	-
		<u>2,435,000</u>	<u>-</u>	<u>370,000</u>	<u>2,065,000</u>
Capitalized lease obligations:					
FMC Corporation	7.86%	62,312	-	16,546	45,766
Caterpillar	7.50%	<u>-</u>	<u>78,873</u>	<u>13,911</u>	<u>64,962</u>
		<u>62,312</u>	<u>78,873</u>	<u>30,457</u>	<u>110,728</u>
Special assessment district bonds with governmental commit- ment (net of discount):					
Turner Cluff	10.00%	659,140	-	659,140	-
Lodi United Downtown (net of \$10,237 discount)	8.75-9.90%	<u>324,113</u>	<u>-</u>	<u>19,350</u>	<u>304,763</u>
		<u>983,253</u>	<u>-</u>	<u>678,490</u>	<u>304,763</u>
		<u>\$ 4,475,254</u>	<u>1,079,494</u>	<u>1,078,947</u>	<u>4,475,801</u>
Enterprise Funds:					
Certificates of participation (net of discount)					
	5.25-7.80%	<u>\$ -</u>	<u>8,917,483</u>	<u>-</u>	<u>8,917,483</u>

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

Long-term debt payable at June 30, 1989 is comprised of the following individual issues:

#### **Certificates of Participation**

\$9,415,000 certificates of participation (1988 Wastewater Treatment Plant Expansion Project), annual principal payments August 1, beginning 1989, in amounts from \$100,000 to \$755,000 with final payment due August 1, 2003, interest increases from 5.25% to 7.60%, payable semiannually on February 1 and August 1, net of \$497,517 discount and issue costs.

#### **1965 Municipal Improvement Bonds - Series A**

These bonds were issued to finance the construction of sewer and drainage facilities plus a public safety building. The bonds are secured by a pledge of property tax revenues. Principal matures annually through October 1, 1995, with interest of 3.50% also payable October 1.

#### **1965 Municipal Improvement Bonds - Series B**

These bonds were issued on May 1, 1969 to finance the construction and completion of storm drainage improvements for the City of Lodi. The bonds are secured by a pledge of property tax revenues. The semiannual principal payments, with interest of 4.50% to 5.25%, are payable on May 1 and November 1 through 1994.

#### **Special Assessment District Bonds with Governmental Commitment**

The City is obligated under the terms of the Lodi United Downtown special assessment bond indentures, in the absence of any other bidder, to be the purchaser of property upon which any said special assessments are levied and are delinquent.

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

On October 12, 1988, \$485,000 Turner Road and Cluff Avenue Assessment District No. 1 Limited Obligation Refunding Improvement Bonds (Series 1988-1 Bonds), with an interest rate of 7.5%, were issued for the purpose of refunding the \$659,140 of outstanding Turner Road and Cluff Avenue Assessment District No. 1 Series 1981-1 Bonds (Series 1981-1 Bonds), with a stated interest rate of 10%. The City's obligation of the Series 1988-1 Bonds is limited to the advancement of funds to the redemption fund in the event of delinquent installments which shall not exceed the balance in the reserve fund and therefore, the Series 1988-1 Bonds are not included on the City's general purpose financial statements. The outstanding balance of the Series 1988-1 was \$485,000 on June 30, 1989.

The new refunding bonds were sold at 97% of par, or \$470,450 net proceeds of sale. As part of the transaction, \$436,500 of the net proceeds together with the funds totaling \$300,100 from the reserve funds which were established for the Series 1981-1 Bonds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Series 1981-1 Bonds. As a result, the Series 1981-1 Bonds are considered to be defeased and the liability for those bonds has been removed from the General Long Term Debt Account Group and the Turner Road and Cluff Avenue Assessment District Fund.

Although the advance refunding resulted in the recognition of an accounting loss of approximately \$151,000 for the year ended June 30, 1989 (recorded in the Agency funds), the District, in effect, reduced its aggregate debt service payments by approximately \$80,000 over the next five years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$25,000.

The annual principal requirements to amortize all debt outstanding as of June 30, 1989 are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Certificates of Participation</u>	<u>Total</u>
1990	\$ 470,000	20,000	105,000	595,000
1991	245,000	25,000	110,000	380,000
1992	250,000	25,000	120,000	395,000
1993	260,000	25,000	125,000	410,000
1994	270,000	30,000	135,000	435,000
1995 and Thereafter	<u>570,000</u>	<u>190,000</u>	<u>8,820,000</u>	<u>9,580,000</u>
	\$ <u>2,065,000</u>	<u>315,000</u>	<u>2,415,000</u>	<u>11,795,000</u>

(Continued)



# CITY OF LODI

## Notes to General Purpose Financial Statements

The various indentures maintain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts. The City is in compliance with all such significant limitations and restrictions.

The present value of future minimum capital lease payments as of June 30, 1989 are as follows:

### Fiscal Years

1990	\$ 39,707
1991	39,707
1992	27,542
1993	18,851
1994	-
Thereafter	-
Total minimum lease payments	125,807
Less amounts representing interest	<u>15,079</u>
Present value of minimum capital lease payments	\$ <u>110,728</u>

### (7) Due From/To Other Funds

Individual fund interfund receivable and payable balances (excluding due from governmental agencies) by fund type at June 30, 1989, are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	9,412
Special Revenue Funds	-	68,500
Debt Service Funds	328,433	-
Capital Projects Funds	427,600	359,100
Enterprise Funds	1,033,333	1,037,354
Trust and Agency Funds	-	315,000
	\$ <u>1,789,366</u>	<u>1,789,366</u>

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

### (8) Operating Transfers

Total operating transfers by fund type at June 30, 1989, are as follows:

<u>Fund</u>	<u>Operating Transfer</u>	
	<u>In</u>	<u>Out</u>
General Fund	\$ 1,349,036	484,941
Special Revenue Funds	20,118	-
Debt Service Funds	449,794	-
Capital Projects Funds	1,166,146	-
Enterprise Funds	-	2,893,343
Internal Service Funds	393,190	-
	<u>\$ 3,378,284</u>	<u>3,378,284</u>

### (9) Defined Benefit Pension Plan

#### (a) Plan Description

The City contributes to the California Public Employees' Retirement System (PERS or System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The City's payroll for employees covered by the System for the year ended June 30, 1989 was \$10,320,692 which was 88% of the City's total payroll of \$11,777,666.

The System covers essentially all employees, except elected officials and those employees compensated on an hourly basis who were hired after May 31, 1966.

Safety employees are required to contribute nine percent of their annual salary to the System. All other employees are required to contribute seven percent. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

#### (b) Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1988. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5 percent a year compounded annually, (b) projected salary increases of 5 percent a year compounded annually, attributable to inflation, (c) additional projected salary increases of 2 percent a year, attributable to seniority/merit, and (d) no postretirement benefit increases.

Total unfunded pension benefit obligation applicable to the City's employees was \$4,955,891 at June 30, 1989, as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 20,293,822
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Current employees:

Accumulated employee contributions including allocated investment earnings	8,015,362
Employer-financed vested	8,682,098
Employer-financed nonvested	<u>531,530</u>

Total pension benefit obligation	37,522,812
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Net assets available for benefits, at cost (market value approximates \$36,833,000)	<u>32,566,921</u>
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Unfunded pension benefit obligation	\$ <u>4,955,891</u>
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(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(c) Actuarially Determined Contribution Requirements and Contribution Made**

PERS uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends on June 30, 2000.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The contribution to the System for 1989 of \$2,041,365 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1988. The contributions consisted of: (a) \$1,725,328 normal cost (16.7 percent of current covered payroll) and (b) \$316,037 amortization of the unfunded actuarial accrued payroll liability (3.1 percent of current covered payroll). The City contributed \$1,233,245 of this total (11.9 percent of current covered payroll) and the employees contributed \$808,120 (7.8 percent of current covered payroll).

#### **(d) Trend Information**

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. System wide ten-year trend information may be found in the California Public Employees Retirement System Annual Reports.

For the year ended June 30, 1989 available assets were sufficient to fund 86.8 percent of the pension benefit obligation. Unfunded pension benefit obligation represented 47.3 percent of the annual payroll for employees covered by the PERS for 1989. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the year ended 1989, the City's contributions to the System, all made in accordance with actuarially determined requirements, was 12 percent of annual covered payroll.

(Continued)

# CITY OF LODI

## Notes to General Purpose Financial Statements

### (10) Segments of Enterprise Activities

There are three services provided by the City which are financed by user charges - electric, sewer, and water. Selected financial data for those three services for the year ended June 30, 1989 are as follows:

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ 24,413,281	2,680,453	1,843,373	28,937,107
Operating expenses:				
Depreciation	(967,552)	(379,426)	(362,966)	(1,709,944)
Other	(23,665,527)	(1,509,699)	(1,174,341)	(26,349,567)
Operating income (loss)	(219,798)	791,328	306,066	877,596
Nonoperating revenue and expenses, net	(801,492)	691,307	(320,731)	(430,916)
Net income (loss)	\$ (1,021,290)	1,482,635	(14,665)	446,680
Additions to fixed assets	\$ 1,447,486	2,235,446	1,090,280	4,773,212
Net working capital	\$ 14,943,932	12,076,918	351,440	27,372,290
Total assets	\$ 27,497,558	20,900,595	5,876,960	54,275,113
Certificates of participation	\$ -	8,917,483	-	8,917,483
Total equity	\$ 26,468,541	11,451,548	4,621,397	42,541,486

### (11) Contingent Liabilities

Deferred Compensation Plan - The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

All amounts of compensation deferred under the Plan, all property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

**Self-Insurance** - The City is self-insured under its existing general liability insurance policy for the first \$250,000 of claims, per occurrence, with the California joint powers insurance agency providing certain liability coverage for the next \$750,000, per occurrence and in the aggregate. Additional coverage is available for claims in excess of \$1,000,000 to \$10,000,000 per occurrence and in the aggregate.

The City is self-insured with respect to workers' compensation, medical benefits, unemployment, and long-term disability for its employees. Self-insured transactions are accounted for in the internal service fund. The first plan is administered by an outside agency, the latter three are administered by the City. Claims payable under the above policies aggregated \$1,440,845 at June 30, 1989. Incurred but not reported claims have been considered in determining the accrual for the self-insurance reserve.

The City does not use an actuary to determine liability. Claims payable are determined from administrators reports and the City's historical data.

**Expansion of Sewage Treatment Plant** - The City issued certificates of participation to pay for the expansion of the capacity of its sewage treatment plant. The City is committed to pay any sewage treatment plant expansion costs in excess of the cash provided from the issuance of the certificates of participation. At June 30, 1989, budgeted costs exceeded cash available from the issuance of the certificates of participation by approximately \$2,408,000.

**Litigation** - The City of Lodi, California is a defendant in various lawsuits. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial condition of the City.

**Arbitrage Earnings** - The LPIC has elected to defer calculation of possible arbitrage earnings (arbitrage earnings are defined as income earned on the unexpended tax exempt certificates of participation (COP) proceeds in excess of that which would have been earned had the monies been invested in securities with a yield of the effective rate of the COPs) to the anniversary date of the debt issue (August 1). Currently arbitrage earnings, if any, must be rebated to the United States Treasury every five years.

(Continued)

## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(12) Restatement of Beginning (June 30, 1988) Fund Balance/Retained Earnings**

##### **(a) Fund Type Reclassifications**

In the prior year, the City accounted for the Camp Hutchins program's revenues and expenditures in the Special Revenue Funds. Because these funds are not legally restricted and Camp Hutchins is not a separate legal entity, the City, effective July 1, 1988, began accounting for this activity in its General Fund. The effect of this change in accounting was a \$13,382 increase in the fund balance of the General Fund.

In the prior year, the City accounted for the Library's revenues and expenditures in the Special Revenue Funds. Because these funds are not legally restricted and the library is not a separate legal entity, the City, effective July 1, 1988, began accounting for this activity in its General Fund. The effect of this change in accounting was a \$478,350 increase in the fund balance of the General Fund.

In the prior year, the City accounted for the Community Center program's revenues and expenditures in the Trust Funds. As monies received for this program are the property of the City and the City is not holding these assets in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds, the City, effective July 1, 1988, began accounting for this activity in its General Fund. The effect of this change in accounting was an \$8,640 decrease in the fund balance of the General Fund.

In the prior year, the City accounted for its hotel and motel tax revenues and expenditures in the Special Revenue Funds. Because these funds are not legally restricted, the City, effective July 1, 1988, began accounting for this activity in its General Fund. The effect of this change in accounting was a \$411,456 increase in the fund balance of the General Fund.

In the prior year, the City accounted for its United Downtown Assessment District activity in the Special Revenue Funds. Because this fund represents debt for which the City is obligated in some manner under the terms of the bond indenture, the City, effective July 1, 1988, began accounting for the current activity of this debt in its Debt Service Fund. The effect of this change in accounting was a \$296,421 decrease in the fund balance of the Debt Service Fund.

(Continued)

## CITY OF LODI

### Notes to General Purpose Financial Statements

In the prior year, the City accounted for the long-term portion of the united Downtown Assessment District bonds payable in the Debt Service Fund. Because this is long-term debt for which the City is obligated in some manner under the terms of the bond indenture, the City, effective July 1, 1988, began accounting for the long-term portion of this debt in its General Long-Term Debt Account Group. The effect of this change in accounting was a \$304,763 increase in the fund balance of the Debt Service Fund and an increase of \$304,763 in the General Long-Term Debt Account Group as a special assessment debt with governmental commitment and as an amount to be provided in future years.

In the prior year, the City accounted for its construction projects in various fund types. Because these activities are for construction projects, the City, effective July 1, 1988, began accounting for these activities in its Capital Projects Funds. The increase in fund balances were as follows:

**General Funds:**

Equipment Fund	\$ 211,303
Capital Outlay Fund	3,425,363

**Special Revenue Funds:**

Subdivision Reserve Fund	408,250
Subdivision Fund	316,569
Master Drainage Program Fund	1,386,857
Library Capital Outlay Fund	208,155

**Trust and Agency Funds:**

Hutchins Street Square Capital Fund	<u>4,590</u>
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Increase in Capital Project Fund balance	\$ <u>5,961,087</u>
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In the prior year, the City accounted for the English Oaks Common Fund and the Turner Cluff Assessment District Funds in the Special Revenue Funds. Because the City is acting as an agent for these funds, the City, effective July 1, 1988, began accounting for these funds in its Agency Funds. The effect of this accounting change was a \$258,967 increase in the fund balance of the Special Revenue Fund.

**(b) General Fixed Assets**

In the prior year, the City had general fixed assets which were not recorded on the City's financial statements. During fiscal year ended June 30, 1989, the City properly recorded their general fixed assets in the General Fixed Assets Account Group. The effect of this restatement was an increase to the General Fixed Assets Account Group as fixed assets and investment in general fixed assets.

(Continued)



## **CITY OF LODI**

### **Notes to General Purpose Financial Statements**

#### **(c) Holding Accounts**

In the prior year, the City accounted for its holding accounts within its fund balances and retained earnings. During fiscal year ended June 30, 1989, the City properly recorded these holding accounts as liabilities. The effect of this change in accounting was a \$33,636 increased fund balance in the General Fund and a \$10,000 decrease in the retained earnings of the Water Fund.

#### **(d) Enterprise Fund Fixed Assets**

Through fiscal year ended June 30, 1988, the City recorded fixed asset transactions in the subsequent year of occurrence. During the current fiscal year, the City changed to recording these transactions in the year of occurrence. This resulted in a restatement of the June 30, 1988 retained earnings. The effects of these restatements were as follows: Increase in Electric, Sewer, and Water retained earnings of \$1,833,492, \$27,349, and \$440,564, respectively, for capitalization of prior year fixed assets; additions and a decrease in Electric, Sewer, and Water retained earnings of \$320,083, \$373,382, and \$94,856, respectively, for prior year depreciation expense.

#### **(e) Special Revenue Fund Fixed Assets Expenditures**

In the prior year, the City recorded an over-expenditure for general fixed assets in the Special Revenue Fund. During fiscal year ended June 30, 1989, the City recorded a correction for this over-expenditure. The effect of this restatement was a \$13,251 increase to fund balance of the Special Revenue Fund.

**CITY OF LODI**  
**Enterprise Funds**  
**Combining Balance Sheet**

June 30, 1989

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash and investments	\$ 11,843,041	3,814,590	1,218,256	16,875,887
Restricted assets	-	8,446,350	-	8,446,350
Receivables (net of allowance for uncollectables):				
Accounts	1,711,045	169,088	162,015	2,042,148
Property taxes	-	47,779	-	47,779
Interest	136,799	106,031	14,980	257,810
Due from other funds or governmental agencies	1,033,333	-	-	1,033,333
Inventory	1,248,085	7,494	211,752	1,467,331
Other assets	646	17,150	-	17,796
Fixed assets (net of accumulated depreciation)	<u>11,524,609</u>	<u>8,292,113</u>	<u>4,269,957</u>	<u>24,086,679</u>
Total assets	\$ <u>27,497,558</u>	<u>20,900,595</u>	<u>5,876,960</u>	<u>54,275,113</u>
<b><u>Liabilities</u></b>				
Accounts payable and other liabilities	\$ 743,247	15,487	83,214	841,948
Accrued salaries and wages	22,145	8,406	8,404	38,955
Accrued interest	-	355,542	-	355,542
Due to other funds	-	4,021	1,033,333	1,037,354
Accrued compensated absences	263,625	148,108	130,612	542,345
Certificates of participation payable, net of discount	<u>-</u>	<u>8,917,483</u>	<u>-</u>	<u>8,917,483</u>
Total liabilities	1,029,017	9,449,047	1,255,563	11,733,627
<b><u>Fund Equity</u></b>				
Retained earnings	26,468,541	11,451,548	4,621,397	42,541,486
Contingent liabilities	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund equity	\$ <u>27,497,558</u>	<u>20,900,595</u>	<u>5,876,960</u>	<u>54,275,113</u>

See accompanying independent auditors' report.

**CITY OF LODI**  
**Enterprise Funds**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Retained Earnings**

Year Ended June 30, 1989

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 24,413,281	2,680,453	1,843,373	28,937,107
Operating expenses:				
Personal services	2,662,618	779,990	719,033	4,161,641
Supplies, materials and services	333,719	136,658	103,785	574,162
Utilities and communications	20,363,566	257,521	347,107	20,968,194
Depreciation	967,552	379,426	362,966	1,709,944
Benefit payments	257,288	4,400	-	261,688
Other	<u>48,336</u>	<u>331,130</u>	<u>4,416</u>	<u>383,882</u>
Total operating expenses	<u>24,633,079</u>	<u>1,889,125</u>	<u>1,537,307</u>	<u>28,059,511</u>
Operating income (loss)	<u>(219,798)</u>	<u>791,328</u>	<u>306,066</u>	<u>877,596</u>
Nonoperating revenues (expenses):				
Sewer bond taxes	-	300,605	-	300,605
Interest revenue	1,122,332	935,549	93,285	2,151,166
Rent	30,013	93,287	26,519	149,819
Interest expense	-	(711,084)	-	(711,084)
Other	159,163	351,294	61,464	571,921
Net operating transfers in (out)	<u>(2,113,000)</u>	<u>(278,344)</u>	<u>(501,999)</u>	<u>(2,893,343)</u>
Total nonoperating revenues (expenses)	<u>(801,492)</u>	<u>691,307</u>	<u>(320,731)</u>	<u>(430,916)</u>
Net income (loss)	<u>(1,021,290)</u>	<u>1,482,635</u>	<u>(14,665)</u>	<u>446,680</u>
Retained earnings, as restated, June 30, 1988	<u>27,489,831</u>	<u>9,968,913</u>	<u>4,636,062</u>	<u>42,094,806</u>
Retained earnings, June 30, 1989	\$ <u>26,468,541</u>	<u>11,451,548</u>	<u>4,621,397</u>	<u>42,541,486</u>

See accompanying independent auditors' report.

CITY OF LODI  
Enterprise Funds  
Combining Statement of Changes in Financial Position  
Year Ended June 30, 1989

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Sources of working capital:				
Operations:				
Net income (loss)	\$ (1,021,290)	1,482,635	(14,665)	446,680
Item not requiring working capital:				
Depreciation	<u>967,552</u>	<u>379,426</u>	<u>362,966</u>	<u>1,709,944</u>
Working capital provided by operations	(53,738)	1,862,061	348,301	2,156,624
Increase in certificates of participation payable (net of discount)	<u>-</u>	<u>8,917,483</u>	<u>-</u>	<u>8,917,483</u>
Total sources of working capital	(53,738)	10,779,544	348,301	11,074,107
Uses of working capital:				
Acquisition of fixed assets, net	1,447,486	2,235,446	1,090,280	4,773,212
Restatement	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total uses of working capital	<u>1,501,224</u>	<u>2,235,446</u>	<u>1,100,280</u>	<u>4,783,212</u>
Net increase (decrease) in working capital	\$ <u>(1,501,224)</u>	<u>8,544,098</u>	<u>(751,979)</u>	<u>6,290,895</u>
Elements of net increase (decrease) in working capital:				
Cash and investments	\$ (2,783,131)	294,058	380,910	(2,108,163)
Restricted assets	-	8,446,350	-	8,446,350
Accounts receivable, net	199,900	71,443	60,782	332,125
Property taxes receivable	-	47,779	-	47,779
Interest receivable	(49,327)	66,104	3,712	20,489
Due from other funds or governmental agencies	1,033,333	-	-	1,033,333
Inventory	135,463	(4,788)	17,470	148,145
Other assets	(178)	(1,000)	-	(1,178)
Accounts payable and accrued liabilities	(661)	5,965	(60,229)	(54,925)
Accrued salaries and wages	40,092	15,069	7,828	62,989
Accrued compensated absences	(76,715)	(37,319)	(129,119)	(243,153)
Accrued interest	-	(355,542)	-	(355,542)
Due to other funds	<u>-</u>	<u>(4,021)</u>	<u>(1,033,333)</u>	<u>(1,037,354)</u>
Net increase (decrease) in working capital	\$ <u>(1,501,224)</u>	<u>8,544,098</u>	<u>(751,979)</u>	<u>6,290,895</u>

See accompanying independent auditors' report.